



High income, low net worth could doom retirement

By [Laura Bruce](#) • Bankrate.com

Have you ever thought that if you were making \$100,000 or more it would be easy to save money? Apparently it isn't, even for people making upward of \$250,000. There's no shortage of high-income earners who have relatively little net worth.

It's not that they don't save; many max out their 401(k) plans religiously. But socking away \$15,500, or \$20,500 if they're eligible for catch-up contributions, annually isn't going to provide for their current lifestyle when they're retired.

"We've always referred to it in our practice as the 105 percent rule," says P.J. DiNuzzo, chief investment officer at DiNuzzo Investment Advisors in Beaver, Pa. "If they're making \$100,000, they spend \$105,000. If they're making \$200,000, they're spending \$210,000. They say they'll start making it up next year, and then next year turns into 10, 15 or 20 years down the road and they've wasted a tremendous opportunity to prepare for retirement."

The No. 1 reason earners in the \$100,000 to \$249,000 bracket give for slacking off on savings is that they need the money to pay bills, according to an HSBC Direct survey. And that would certainly seem to imply, as DiNuzzo indicates, they're living beyond their means.

Claimed Household Income

What prevents you from saving more? Select all that apply:	I need to pay bills.	I don't make enough money to make ends meet.	Something unforeseen always comes up.	I want some spending money.	I don't feel the need to save.	Other.
Less than \$25,000	56%	59%	26%	19%	4%	8%
\$25,000 - \$49,999	62%	39%	28%	21%	4%	8%
\$50,000 - \$74,999	53%	19%	30%	22%	4%	16%
\$75,000 - \$99,999	53%	16%	31%	28%	1%	21%
\$100,000 - \$149,000	56%	9%	28%	26%	6%	18%
\$150,000 - \$199,000	53%	2%	25%	34%	0%	17%
\$200,000 - \$249,000	58%	10%	9%	29%	7%	19%
\$250,000 +	34%	9%	25%	49%	0%	43%
Prefer not to answer	46%	21%	28%	15%	4%	29%

Source: HSBC Direct

Spenders or savers?

Many of these high income earners who come up short at the savings game are entrepreneurs who excel at running a business or professionals who receive annual raises and bonuses that can mean a 10 percent annual increase in gross pay. They're bright, and it shouldn't be difficult for them to figure out that they're going to need a hefty nest egg to continue their lifestyle beyond their working years.

Michael Prebenda, senior vice president at HSBC Direct, says people have belief sets that guide them to be spenders or savers. "You'll find people with low incomes who save a large percentage of their income because they believe strongly in savings. People who aren't inclined to save can't visualize the need to save for something that's 10, 20 or 30 years down the road. It's not tangible.

"It's often quoted that in the U.S. we have a negative savings rate. That's driven by 70 percent of the population that's spending well in excess of their income annually and 30 percent of the population, roughly, that's saving a heck of a lot of money. It's that 30 percent who have a good feel for cash."

Financial planners find it's not always easy getting these folks to see the light. DiNuzzo says it can be awkward to find yourself playing the role of the financial parent in the relationship.

"You get a lot of pushback with these people even trying to go through a cash-flow statement with them. Obviously, nobody making that kind of money has a low IQ; they know where we're going with this. They'll avoid it and it will go on for months and months. Finally, we say we just need to pick a number over and above what they're putting in their qualified plan at work. We need to get them into the groove of saving money."

Setting retirement lifestyle

Dave Hinnenkamp, chief executive officer at KDV Wealth Management Group in St. Cloud, Minn., says his firm has a number of clients in the high-income, low-net-worth category. His concern is that for every dollar they spend they set a standard of living for themselves. He notes that the impact of spending those dollars doubles when you consider that the money isn't available to support them in later years.

"The whole key is finding a balance between living for today and saving enough for tomorrow so you can retain that lifestyle when you retire. We sit with them and develop a dynamic plan; each year we reassess whether the target is still accurate and we make any necessary course corrections.

"We see both sides of it -- some clients spend too much and won't be able to enjoy retirement in the same manner as their current lifestyle while others may not spend enough. They'll retire with a lot of money, but they may not have developed any hobbies because they didn't spend anything. But the side that's most alarming is when they don't put enough away."

[Consider meeting with a financial planner](#) for a comprehensive assessment of your retirement needs and ways to get on track to meet them. If you're a do-it-yourselfer, or you want to crunch some numbers in advance of a meeting, try Bankrate's [retirement calculator](#).

From spender to saver

Getting into the savings habit can be a struggle for people in all income brackets. Even if your DNA is stamped "spender!" you may be able to break out of that mold. The old chestnut about forced savings -- having money taken out of your paycheck so you don't get a chance to spend it -- works. Max out your retirement plan options at work. If that's not going to be enough to support you during your golden years, you'll need to develop a bit more self-restraint.

In addition to the retirement plan provided through your employer, open an [IRA](#) at a bank or brokerage and have it funded with automatic payments. A similarly funded [high-yield savings account](#) can be opened online with automatic monthly payments from a checking account.

A financial planner will be able to suggest investments that will put your money to better use. You'll need to keep your hands off the investment and savings accounts if you want them to grow. The hope is that eventually you'll see the benefit of saving money and realize it's not hard to do. Meanwhile, you'll still have enough to spend; you just won't have enough to wreck your retirement.